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Louisiana Small Business Development Centers**

**Statement Before the
U.S. Senate Committee on Small Business and Entrepreneurship**

Regarding the Impact of Hurricane Katrina on Small Businesses

September 22, 2005

Chair Snowe, Ranking Member Kerry, Members of the Senate Committee on Small Business and Entrepreneurship, I am Mary Lynn Wilkerson State Director for the Louisiana Small Business Development Centers, an SBA partnership program with the State of Louisiana and 12 participating universities. Our program is administered by the University of Louisiana Monroe.

You indicated that you want to hear how small businesses have been impacted by Katrina. I hope that I will be able to provide you with some sense of the complete devastation of the small business community in the greater New Orleans area.

New Orleans and the surrounding parishes represent one-third of Louisiana's economy. Almost one million people were evacuated for Katrina and three weeks later, they have not been allowed to return to their homes and their businesses. Where all of these people located now? Most of them are still in the state of Louisiana. They are in small rural churches, closed school buildings, shelters, closed but hastily reopened dorms, and in the homes of friends and families.

Can you imagine your state without one-third of its economy; without one-third of its small business community? Can you imagine not knowing when the largest city will begin to recover? Can you imagine if the largest city in your state was virtually destroyed? What if your state was almost the poorest state in the nation? Louisiana's poverty rate is 19.2% - the second highest in the nation.

Let's say you could open your business. Where will your customers come from? How long will it take for hundreds of thousands of homes to be repaired and become habitable again? How long will it take for thousands of businesses to be cleaned, repaired, and reopened? What will the population density need to be to support businesses? Who will provide the funds you need to continue your business? How long

will it take to get the funds? How will you survive until the business sector begins to recover? All of these questions simply cannot be answered yet.

Perhaps never in the United States, has a major metropolitan area been so devastated. We must have the help of the federal government. We must have help from President Bush and bi-partisan Congressional support to recover.

Most of the businesses I have personally spoken with having a very difficult time – they have lost or have significant damage to their home, they have significant physical damage to their business and the economic injury is incalculable at this time. They have no current income or a greatly reduced income. Many small business owners need someone to talk to about their business and they need someone to help them forecast what their economic injury will be and how long it will be before they begin to recover. They need technical assistance that can be provided by the SBDC's.

There are a few facts you should keep in mind as I tell you a few of the stories I have heard in the past two weeks. In the eleven critical parishes most severely impacted by Katrina, there are 70,525 businesses with less than 500 employees and there are 140 businesses with more than 500 employees. Businesses with 19 and fewer employees make up 85% of the total businesses in the greater New Orleans MSA.

Minorities make up 36% of Louisiana's population. They own 14% of the firms in Louisiana, but minority businesses represent only 1.8% of total sales and 2.7% of total payroll. Women owned businesses own 23.9% of firms, but represent only 4% of total sales and 5.6% of total payroll. These businesses already have a difficult time with access to capital and their survival rate will be greatly impacted by their inability to obtain sufficient capital during this very difficult time.

In an article written by Scott Daugherty, "Helping Small Businesses After Hurricane Floyd", quotes from the Institute of Home Business and Safety provide some alarming statistics for small business survival after a disaster – "of all businesses that close down after a disaster, more than 43% never reopen, and an additional 29% close down permanently within two years." In Louisiana, we cannot afford to lose 20,000 to 30,000 businesses.

Finally I am getting to the stories.

A family owned and operated business that employees 60+ people has been in business for several decades and is based in New Orleans. They are in the industrial and institutional maintenance products business and they provide products and services to many of the governmental agencies in the region. The company has a private client list of more than 1,000 businesses. When I spoke with one of the owners on Friday about the future of his business, he told me that he is extremely worried. According to him,

“more than 90% of the businesses in Jefferson Parish are closed”. He believes that he is one business that might have the opportunity to survive and to grow because of the clean-up situation. However, his family business faces a real threat – most of his business is done through accounts and his receivables are now virtually worthless. When the accounts become 90 to 120 days, he believes that his business will be in serious jeopardy. It will be. He asked me who would fund his business. I did not have an answer for him, but I promised I would look and I promised that I would ask when I came to Washington, D. C. Questions about financing accounts receivable with no value has been a common concern with businesses.

One couple owns a medium sized firm that had as much as 12 feet of water in their business. Much of their heavy equipment has been destroyed or will have to be completely reworked before they can begin using it in their construction business. Their offices have been severely damaged. FEMA has hired the firm’s two foremen. FEMA is paying them \$500 per day to cover buildings with tarps. The foremen are not coming back to work for the company. The workers are primarily from New Orleans East and they want to come back to work, but there is no place for them to stay. The owners will need far more than \$1.5 million to get their business back to where it was before Katrina.

On Sunday a young woman called me to try to find some assistance. Her home had been destroyed, her mother’s home had been destroyed, her husbands business has been severely impacted, and her limousine business is gone. She is also a nurse and has been working extremely long hours and was shifted to another hospital. The hospital records have been mixed up and her paycheck had not been processed yet. She was in tears and you could tell she was at the end of her rope. She had a limousine service and her vehicles were four months from being completely paid off. She cannot pay this month’s insurance premium and she cannot make her payroll. Without an immediate bridge loan on both businesses this family will lose both businesses. She indicated that she had signed up with FEMA but had not received the SBA Disaster application. They cannot wait several months for the SBA Disaster loan to be processed and closed. I advised her that the SBDC would help her and her husband fill out the applications and then we would help her with the financial projections they will need for economic injury. I advised her that her husband may be eligible for disaster self-employment benefits. She was very grateful that I was able to provide her with the first real information she had been able to get. I just hope that help is not too late for her – and for the other small businesses in Louisiana.

If the federal government does not provide the financial assistance needed, if it does not ensure that Louisiana businesses receive contracts to rebuild our communities and ensure the funding our businesses need to survive and rebuild, then it is the same thing as leaving all of those people on the roofs of their houses.

In Louisiana, the SBDC's are the only source for in-depth business assistance. The Louisiana SBDC has 13 Service Centers throughout the State of Louisiana - five were impacted by Katrina and 3 of those 5 remain closed and will be for some extended period of time.

Our main telephone number has received over 250 calls per day since September 6. In the past week, the SBDC's in Louisiana have offered 5 training programs for business recovery to more than 200 attendees. One press release resulted in 200 telephone calls and 50 emails in one day at Southeastern Louisiana University SBDC in Hammond. The LSU SBDC has provided one-on-one counseling to 27 individual clients, 52 requests for disaster assistance, and 39 email inquiries in one week - all with no promotion. The LSU SBDC receives approximately \$120,000 in state and federal funding for their SBDC and the SLU SBDC receives just under \$100,000 in state and federal funding. We receive \$1.2 million for the entire state program.

The SBDC service centers in Louisiana and Mississippi cannot handle the demand that is coming and we have no resources to increase the number of counselors in our centers. There are many CPA's, bankers, and other professionals that have been negatively impacted and with additional resources, we could contract with these individuals to provide services to Louisiana businesses.

The Association of Small Business Development Centers arranged for more than 150 SBDC counselors to be trained and the ASBDC has coordinated SBDC volunteer counselors from other states coming to the affected areas. However, Louisiana does not have the funds necessary to pay travel, per diem and lodging for many of these volunteer counselors.

Madame Chair, I sincerely appreciate the letter you and Senator Vitter wrote to Administrator Barreto asking that the Small Business Administration waive the \$100,000 maximum so that the SBDC's will have the ability to apply for the necessary amounts of the SBA's Portability Funding program. It is now 25 very critical days since Hurricane Katrina and the SBDC's in Louisiana, Mississippi and Alabama still have no idea when the money can be applied for or when it will be available. Last year when Florida suffered 4 hurricanes they asked for additional resources from the SBA and they received \$4,500. We need increased resources now. The demand for services is now.

We need for the amount of the SBA Disaster loans to be increased from \$1.5 million to \$10 million. We need the loan payments deferred for at least one year. We need to increase the term from 3 years to 10 for applicants with credit elsewhere. We desperately need bridge loan money and grants. Small Businesses need to be able to

refinance existing debt. We need for the October 28 deadline for physical injury applications to be extended. We need more money appropriated for the SBDC program and more specifically for Alabama, Mississippi and Louisiana SBDC's.

I would personally like to thank Senator Landrieu and Senator Kerry for the

Madame Chair, Ranking Member Kerry, I am extremely grateful for the Snowe, Kerry, Landrieu, Vitter, Talent amendment that provides for much of the funding for businesses that is so desperately needed on the Gulf Coast and for \$21 million in additional funding for the national SBDC program. I would like to express my gratitude to each of the senators on this committee for their vote. I can only hope that the house also will pass the amendment as it is offered.

I know that you are all aware that the impact of Katrina is not limited to the Gulf Coast, but will be far reaching and will very likely impact businesses in your states. You have all had your businesses impacted by higher gasoline prices because of the damage to the oil producing drilling rigs and the plants in Louisiana that produce gasoline. A manufacturer in Missouri may have a primary supplier in St. Bernard Parish that may not be open for the next 8 to 12 months. That manufacturing business will suffer economic injury.

We must be aware that our banks could be facing difficult times as well. Many millions of dollars in direct disaster loans will be made at very low interest. Banks cannot compete with these rates and we must find a way to address the impact on banks. There needs to be some additional incentives for banks to make loans to small businesses.

Thank you again for allowing me to appear before the committee today. It has been an honor and a privilege. At this time, I will be glad to respond to any questions that you, Madame Chair, or other members of the committee may have.